Message Text

PAGE 01 STATE 156923

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TO USMISSION EC BRUSSELS

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FOLLOWING REPEAT STATE 156923 ACTION OTTAWA INFO GENEVA LONDON PARIS TOKYO OECD PARIS MTN GENEVA HELSINKI JUL 03

QUOTE

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E.O. 11652:N/A

TAGS:ETRD, CA

SUBJECT: COST OF PRODUCTION INFLATION $\,$ INSURANCE FOR EXPORTS.

REF: A) OTTAWA 2387A B) STATE 153299; C) STATE 083421

1. USG MADE IMMEDIATE BILATERAL PROTESTS TO THE UK WHEN HMG PROPOSED ITS COST OF PRODUCTION INFLATION INSURANCE PLAN TO PARLIAMENT EARLY THIS YEAR. THIS WAS FOLLOWED BY ACTION IN THE OECD PURSUANT TO THE EXPANDED CONSULTATION PROCEDURES UNDER THE TRADE PLEDGE. THE TRADE COMMITTEE WORKING PARTY MET ON MARCH 25 AND CONSIDERED THE UK SCHEME. ITS RECOMMENDATION THAT IMPLIMENTATION OF THE UK SCHEME BE REVIEWED FROM TIME TO TIME WAS ACCEPTED. THE TCWP THEN RECOMMENDED THAT THE EXAMINATION BE GENERALIMITED OFFICIAL USE

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PAGE 02 STATE 156923

LIZED TO COVER ALL SUCH PLANS THEN IN EXISTENCE. (EXTAFF

SHOULD HAVE OECD DOC. TC(75)9, WHICH IS REPORT OF TCWP). IN THE TCWP, THE FRENCH AND ITALIANS DID NOT OPPOSE A GENERAL EXAMINATION, BUT REVERSED THEMSELVES IN THE SUBSEQUENT MEETING OF THE TRADE COMMITTEE ON APRIL 30. THE QUESTION OF A GENERAL EXAMINATION IS STILL PENDING IN THE OECD AND COULD BE TAKEN UP AGAIN AT THE LATE JULY OECD TRADE COMMITTEE MEETING.

- 2. IN THE GATT COUNCIL, WE MADE A STATEMENT ON MARCH 24 IN WHICH WE POINTED OUT THAT THE UK SCHEME SHOULD BE NOTIFIED AS A SUBSIDY UNDER ARTICLE XVI:1 AND, IN OUR VIEW, WAS CONTRARY TO ARTICLE XVI:4. IN THE GATT COUNCIL OF JUNE 2WE POINTED OUT THAT OTHER GATT MEMBERS ALSO HAD INFLATION INSURANCE PLANS, WHICH SHOULD BE NOTIFIED. AT THAT TIME, WE NOTIFIED THE EC DELEGATION TO GATT PRIVATELY THAT WE REGARD THE FRENCH SYSTEM TO BE IN VIOLATION OF ARTICLE XVI:4. IN EACH CASE, WE RESERVED OUR RIGHT TO DEAL WITH THE MATTER IN THE GATT AT A LATER TIME.
- 3. WHEN WE RECEIVED REPORTS THAT PRESSURE WAS GROWING IN JAPAN TO ADOPT INFLATION INSURANCE IN RESPONSE TO THE UK SCHEME, WE INFORMED THE GOJ (REFTEL C) THAT WE WERE STRONGLY OPPOSED TO SUCH SCHEMES, AND HOPED THAT GOJ WOULD JOIN US IN FIGHTING THEIR PROLIFERATION. WE UNDERSTAND THAT GOJ HAS DECIDED NOT TO INTRODUCE INFLATION INSURANCE.
- 4. WE WILL FORMALLY NOTIFY ALL SUCH SCHEMES NOW IN EFFECT (IN ADDITION TO OTHER TYPES OF EXPORT SUBSIDIES)
 TO THE SUBSIDIES-COUNTERVAILING SUB-GROUP OF THE NTM
 GROUP OF THE MTN FOR INCLUSION IN THE NON-TARIFF MEASURES
 INVENTORY. U.S. FAVORS DEVELOPMENT OF A GATT SUBSIDY/
 COUNTERVAILING DUTY CODE IN MTN WHICH WILL PROHIBIT OR
 CONTROL COST PRODUCTION INSURANCE SCHEMES AND OTHER SIMILAR EXPORT SUBSIDIES.
- 5. WE RAISED THE POSSIBILITY OF DEALING WITH INFLATION INSURANCE IN THE CONTEXT OF THE GENTLEMEN'S AGREEMENT ON EXPORT CREDITS, BUT BECAUSE CONSIDERATION OF THE ISSUE AT THIS TIME WOULD UNDULY COMPLICATE THE NEGOTIATIONS, AND BECAUSE INFLATION INSURANCE CAN APPLY TO CASH AS WELL AS LIMITED OFFICIAL USE

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PAGE 03 STATE 156923

CREDIT CONTRACTS, WE AGREED THAT IT WOULD BE IMPRACTICAL TO INSIST THAT IT BE COVERED IN THE AGREEMENT CURRENTLY UNDER DISCUSSION. HOWEVER, MOST OF THE NEGOTIATING PARTIES (THE US, THE EC, AND JAPAN) HAVE INDICATED THAT THEY CONTINUE TO BELIEVE THAT CONTROL OF EXPORT INFLATION INSURANCE BY SOME MEANS, WHETHER UNDER THE RUBRIC OF A FUTURE, MORE COMPREHENSIVE EXPORT CREDIT AGREEMENT, A SUBSIDIES CODE, OR BOTH, IS DESIRABLE.

- 6. HMG HAS STATED THAT THE UK PLAN COULD COST THE TREASURY L50 MILLION THE FIRST YEAR. THE FRENCH SCHEME COST THE TREASURY 900 MILLION FRANCS IN 1974, AND IT IS ESTIMATED THAT IT WILL COST 1.5 BILLION IN 1976-78. THE COST OF THE FINNISH SCHEME HAS BEEN ESTIMATED AT 1.75 BILLION FNK FOR THE PERIOD 1975-78.
- 7. OUR CONCERN IS NOT LESSENED BY GOC PREFERENCE FOR A "RESPONSIVE SCHEME" WHICH WOULD OPERATE ONLY WHEN CANADIAN EXPORTERS WERE COMPETING AGAINST FIRMS WHICH BENEFIT FROM INFLATION INSURANCE IN EFFECT IN OTHER COUNTRIES. BECAUSE FRENCH AND BRITISH FIRMS ARE ALREADY VERY ACTIVE IN THE CAPITAL GOODS MARKETS THE CANADIANS ARE TRYING TO PENETRATE, THE ACTUAL EFFECT OF SUCH A "RESPONSIVE SYSTEM" WOULD DIFFER LITTLE FROM AN ACROSS THE BOARD APPROACH, E.G. FRENCH AND BRITISH PLANS.
- 8. EMBASSY'S ATTENTION IS DRAWN TO REFTEL B; ALTHOUGH WE DO NOT WISH TO PRE-EMPT THE COMMISSION'S INITIATIVE TO CONTACT THE CANADIANS, YOU MAY IF APPROPRIATE, NOTE OUR UNDERSTANDING THAT THE EC COMMISSION OPPOSES INFLATION INSURANCE.
- 9. EMBASSY IS REQUESTED TO CONVEY ABOVE INFORMATION TO SHANNON. IN ADDITION, YOU SHOULD MAKE OUR POSITION CLEAR TO HIGHER LEVELS IN THE EXTAFF, AND TO APPROPRIATE OFFICIALS IN THE ITC AND DEPARTMENT OF FINANCE TO IMPRESS ON THEM THE DEPTH AND URGENCY OF OUR CONCERNS.
- 10. WE ARE REPEATING TO OTTAWA THE FOLLOWING CABLES WHICH CONTAIN BACKGROUND INFORMATION WHICH MAY BE USEFUL TO EMBASSY: GENEVA 4166, GENEVA 4051, OECD 11166, OECD 07854, LIMITED OFFICIAL USE

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PAGE 04 STATE 156923

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